Municipal
Pension Plan

Municipal Pension Plan 2010 Annual Report

January 1, 2010 to December 31, 2010

A Paycheque for Life!

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Message from the Trustees

The Municipal Pension Plan is a vibrant, growing plan that welcomed the addition of the Community Social Services sector and almost 15,000 new members in 2010.

We are very happy to tell you that the Plan's investments grew to $27.3 billion by December 31, 2010 with an investment return of 9.8 per cent for the year. This follows a return of 10.8 per cent in 2009. However, these two good years follow 2008, when the return was -12.4 per cent. Although the investment climate is improving, we expect to see ups and downs in the markets. The Board monitors the Plan's investments on a regular basis and will be reviewing asset allocation in 2011.

In spite of market volatility, we know the Municipal Pension Plan is secure because we have an independent actuary assess the plan's funded status every three years. The valuation tells us if the assets will meet the Plan's obligations, and if contributions need to be adjusted. A valuation was conducted as at December 31, 2009.

The actuarial valuation showed that the Plan had an unfunded liability for basic pension benefits of approximately $1.024 billion as at December 31, 2009. An unfunded liability occurs when the money projected to be available to pay future pensions (assets) is less than the projected costs of paying for those pensions (liabilities).

The unfunded liability is a result of several factors, including impacts of the recent global financial crisis, lower expectations for future investment returns and increased retiree longevity.

The Board approved an increase in member and employer contribution rates effective July 1, 2011. The increase in contributions will pay off the current unfunded liability over a 15-year period, ensuring that the Municipal Pension Plan will be stable and secure. In addition, employer contribution rates will be adjusted July 1, 2011 to correct an imbalance in employer contribution rates identified in the actuarial valuation.

At the 2006 valuation, the Plan had a relatively small surplus of $438 million and there was no change in contribution rates. Contribution rates were increased following the 2003 valuation.

The next actuarial valuation will be as at December 31, 2012. In the years when we don't have a full actuarial valuation, the Trustees monitor the funded status of the Plan by reviewing reports on investment performance, financial statements and updates from the actuary.

Members and employers both have a stake in the pension plan and a role to play in making sure that it is adequately funded. This partnership is reflected in the way the Plan is managed, through Joint Trusteeship with Trustees appointed to represent members and employers. Click here for a list of Trustees and who appoints them.

Joint Trusteeship began in April 2001. Since then, member and employer Trustees have worked together to ensure that the Plan is sustainable.

We work with the BC Investment Management Corporation to set an investment policy that looks for good returns over the long term. The contributions members and employers make pay a small part of your final pension. The rest is funded by investment returns.

We work with the Pension Corporation to ensure members have the information they need to take full advantage of their pension options—whether buying a leave or choosing their options at retirement.

Over 63,000 plan members are now receiving pensions from the Plan – a number that will continue to grow for the foreseeable future. We are the sixth largest pension plan in the country, with over 250,000 members and more than $27 billion in assets.

This is a strong, healthy pension plan, and the Municipal Pension Board of Trustees is actively working with all stakeholders to ensure we continue meeting the pension promise made to every one of our members.

New Board Chair and Vice Chair

The Municipal Pension Plan annually rotates the roles of Chair and Vice Chair between employer and employee representatives. Brendan Dick, appointed by the Hospital Employees' Union, became the Chair January 1, 2011. Richard Taylor, appointed by the Union of British Columbia Municipalities, became Vice Chair.

Financial Highlights

For 2010, the Municipal Pension Plan achieved a 9.8 per cent return. The Plan earned investment income of $2.4 billion. The Plan's market value of investments increased from $24.4 billion in 2009 to $27.3 billion as at December 31, 2010.

The financial markets continued to rebound in 2010 in spite of the European debt crisis and concerns about the strength of the U.S. economy. Most major markets ended 2010 with solid gains and consequently, the Fund's combined equities earned 10.9 per cent for the year. The Fund's combined fixed income investments performed strongly in 2010, returning 7.8 per cent.

In addition to investment return, managing the Plan's expenses is also important to ensure that a greater proportion of investment return will pass through to the Plan, contributing to its long-term sustainability. The Plan's investment manager, British Columbia Investment Management Corporation (bcIMC), operates on a cost recovery, not-for-profit basis. As a result, bcIMC's fees continue to be significantly lower than those of other large Canadian pension plans and other investment managers.

In 2010, the Municipal Pension Plan paid out $965 million in pension benefits and received $1.28 billion in contributions from employers and members. The Pension Corporation's overall benefit administration cost per member remains competitive amongst our peers.

The Municipal Pension Plan is a signatory to the United Nations Principles for Responsible Investment ("UNPRI"). Each year we participate in a survey that measures our progress toward achieving the principles relative to our global peers. The results for the most recently released survey (activities for calendar 2009) showed that the Plan's overall score was above average relative to other signatories. Details about the UNPRI can be found at http://www.unpri.org.

Investments Held as at December 31, 2010

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	453,200	1.7
Bonds (1–5 years)	249,340	0.9
	702,540	2.6
Mortgages	1,210,084	4.4
Bonds		
Global Government	257,383	0.9
Universe	5,093,565	18.7
	5,350,948	19.6
Real Return Bonds	1,451,668	5.3
Canadian Equities*		
Indexed	2,160,027	7.9
Actively Managed	2,473,002	9.0
	4,633,029	16.9
Global Equities		
US Indexed	1,910,943	7.0
US Actively Managed	1,050,272	3.9
US Hedging	149,280	0.5
Active Global	151,092	0.6
Europe	542,401	2.0
Europe, Australia and the & Far East	1,867,154	6.8
Asian indexed	186,701	0.7
Japan	927	0.0
International Hedging	50,016	0.2
	5,908,786	21.7
Emerging Markets		
Asia Ex-Japan	571,786	2.1
Emerging Markets	1,260,613	4.6
	1,832,399	6.7
Real Estate*	3,741,180	13.7
Private Placements*	1,243,509	4.6
Strategic Investments and Infrastructure*		
SIFF Public Equities	242,035	0.9
Domestic Private Placements	185,725	0.7
Foreign Private Placements	748,315	2.7
Real Estate	66,948	0.2
	1,243,023	4.5
Total Investments	**27,317,166**	**100.0**
2009 Comparison	**24,444,637**	

* Asset classifications vary from the financial statements for the purpose of performance reporting on Strategic Investments and Infrastructure.

Market Value Rates of Return

for the year ended December 31

	Rate of Return (%)	Performance Benchmarks* (%)	
Annual Rates**			
2010	**9.8**	**8.8**	
2009	10.8	13.3	
2008	(12.4)	(10.1)	
2007	4.4	2.5	
2006	15.0	12.2	
Five-Year Annualized Rates**			
2010	**5.1**	**5.0**	
2009	5.5	5.3	
Ten-Year Annualized Rates**			
2010	**5.1**	**5.0**	
2009	4.9	4.8	
2010 Annual rate by investment category			
Short-term			
Money Market	0.7	0.5	DEX T-Bill 91 day
Bonds	3.3	3.3	DEX ShortTerm Government Bond Index
Bonds			
Universe bonds	7.7	6.7	DEX Universe Bond Index
Global Government Bonds	4.3	4.7	JP Morgan Hedged
Real return bonds	11.0	11.1	DEX Real Return Bond Overall Index
Mortgages			
Fixed-term	8.6	4.6	DEX ST Bonds + 1%
Construction	5.3	1.9	DEX 1 Year T-Bills +1%
Canadian equities			
Active	15.7	16.9	S&P/TSX Capped Equity
Active Small Cap*	25.2*	30.9*	S&P/TSX Small Cap
Indexed	16.9	16.9	S&P TSX Equity
Enhanced	17.3	16.9	S&P/TSX Capped Equity
Global Developed Equities			
Global Active	4.0	5.9	MSCI World Net
US Active	8.1	10.0	Russell 1000
US Small Cap*	14.0*	22.1*	Russell 2000
US Indexed	9.0	9.1	S&P 500 Total Return Index
US Social Indexed	5.9	6.1	MSCI KLD Social Index
US Enhanced	8.5	9.1	Russell 1000/S&P 500
Asian Indexed*	4.0*	4.1*	MSCI Pacific Net
Japan	5.9	9.4	MSCI Japan Net Index
Europe	(1.1)	(1.5)	MSCI Europe Net Index
Europe, Australia and the Far East	2.7	2.1	MSCI EAFE Net Index
Emerging Markets			
Emerging Markets	13.9	12.7	MSCI Emerging Markets Net Index
Asia ex-Japan	13.1	12.0	MSCI All Country Asia Pacific ex-Japan Net Index
Domestic Real Estate	8.4	6.4	CPI + 4%

* Returns for Canadian Active Small Cap, U.S. Active Small Cap, Indexed Asian Equity, and their respective benchmarks, are from the inception date to the Fiscal Year end reflecting the Fund's participation beginning March 25, 2010, February 1, 2010, and December 1, 2010 respectively.

** Beginning January 1, 2010 bcIMC merged the inflation adjustment portfolio and the basic portfolio into one. All returns prior to January 1, 2010 are for the basic portfolio only.

Performance Benchmark Indices Abbreviations

CPI = Consumer Price Index
DEX = PC-Bonds Domestic Exchange Index
MSCI = Morgan Stanley Capital International
S&P = Standard & Poor's
S&P/TSX = Standard & Poor's/Toronto Stock Exchange Equity or Capped Equity

(Source of annual rates: British Columbia Investment Management Corporation)

Investment Asset Mix and Performance

as at December 31, 2010

Asset Class	Approved Range (%)	Target Asset Mix Market Value (%)	Actual Asset Mix Market Value (%)	Rate of Return (%)	Performance Benchmark (%)
Short-term	0–10	2	2.6	1.9	0.5
Mortgages	0–10	5	4.4	7.3	4.1
Nominal Bonds	13–27	20	19.6	7.5	6.7
Real Return Bonds	0–10	5	5.3	11.0	11.1
Fixed income	**22–42**	**32**	**31.9**	**7.8**	**6.6**
Canadian Equities	8–22	15	16.9	17.2	16.9
Global Developed Equities	15–30	23	21.7	5.7	5.9
Emerging Markets	0–10	5	6.7	13.7	12.7
Real Estate	10–20	15	13.7	8.4	6.4
Private Placements	0–10	5	4.6	*	*
Strategic Investments and Infrastructure (SIIF)	0–10	5	4.5	*	*
Equity	**58–78**	**68**	**68.1**	**10.9**	**10.6**
Total Asset Mix		**100**	**100.0**	**9.8**	**8.8**

* Annual rate of return not available.

Five-Year Financial Summary

$ Thousands

For the year ended December 31	2010	2009	2008	2007	2006
Increase (Decrease) in Assets					
Investment income (loss)	$ 2,425,150	$ 2,395,704	$ (3,091,956)	$ 1,084,547	$ 3,126,011
Contributions					
Members'	591,731	568,122	513,165	496,994	460,829
Employers'	687,358	656,180	595,510	566,325	522,128
Transfers from other plans	13,897	20,204	19,051	49,502	37,623
Total Increase (Decrease) in Assets	3,718,136	3,640,210	(1,964,230)	2,197,368	4,146,591
Decrease in Assets					
Pension benefits	964,825	909,348	833,763	762,493	711,133
Termination and refund benefits	92,421	90,887	91,629	79,048	65,221
Transfers to other plans	16,726	17,515	18,837	45,130	28,273
Retired member group benefits	56,686	53,720	48,009	52,983	55,615
Investment and administration costs*	60,225	51,777	49,467	55,453	43,344
Total Decrease in Assets	1,190,883	1,123,247	1,041,705	995,107	903,586
Increase (Decrease) in Net Assets	2,527,253	2,516,963	(3,005,935)	1,202,261	3,243,005
Net Assets Available for Benefits at Beginning of Year	24,489,749	21,972,786	24,978,721	23,776,460	20,533,455
Net Assets Available for Benefits at End of Year	$27,017,002	$24,489,749	$21,972,786	$24,978,721	$23,776,460
Investment and Administration Costs as a Percentage of Net Assets*					
Investment Management*	0.17%	0.16%	0.19%	0.24%	0.19%
Benefits Administation	0.09%	0.10%	0.10%	0.08%	0.08%

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of $12.0 million (2009—$10.3 million; 2008—$13.0 million; 2007—$23.9 million; 2006—$20.6 million) reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets.

Average Value of New Regular Pensions

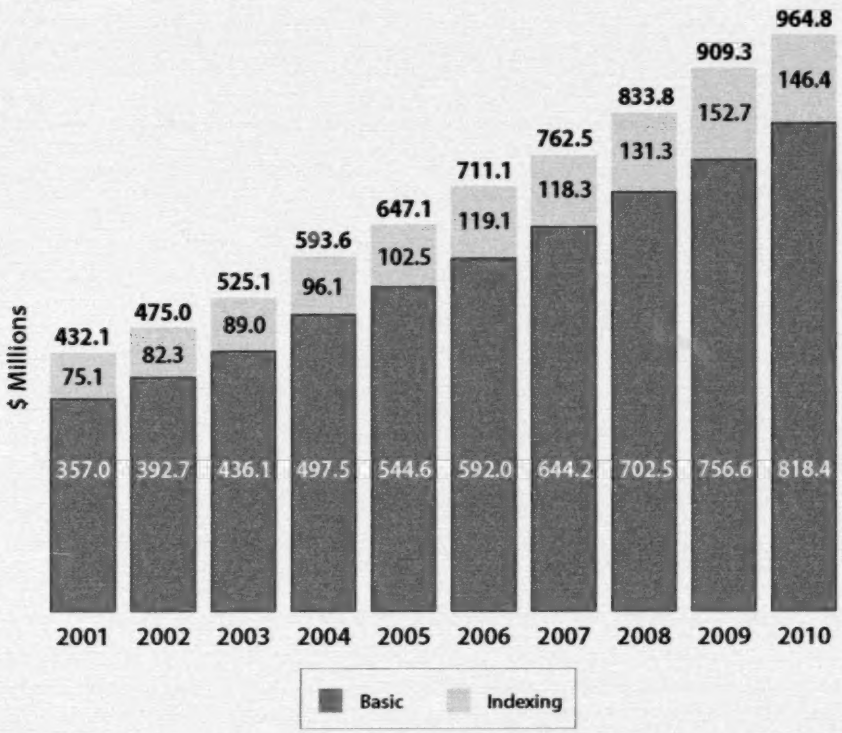
for year ended December 31, 2010
Subdivided by years of service

Years of Service*	Number of New Pensions	Average Annual Salary Base ($)	Average Annual Pension ($)	Average Present Value of Pensions ($)	Total Present Value of Pensions ($ Millions)
<10 YEARS	636	$ 51,000	$ 5,600	$ 69,000	$ 43.9
10 TO 14	536	52,000	12,500	155,000	83.1
15 TO 19	589	53,000	17,500	225,000	132.5
20 TO 24	480	58,000	24,500	323,000	155.0
25 TO 29	488	64,000	34,100	466,000	227.4
30 TO 34	485	64,000	41,100	572,000	277.4
35 AND UP	136	70,000	46,600	665,000	90.4
Total	**3,350**	**n/a**	**n/a**	**n/a**	**$1,009.7**
Average of All Pensions	**n/a**	**$57,000**	**$22,500**	**$290,000**	

* Years of service includes service transferred from other plans

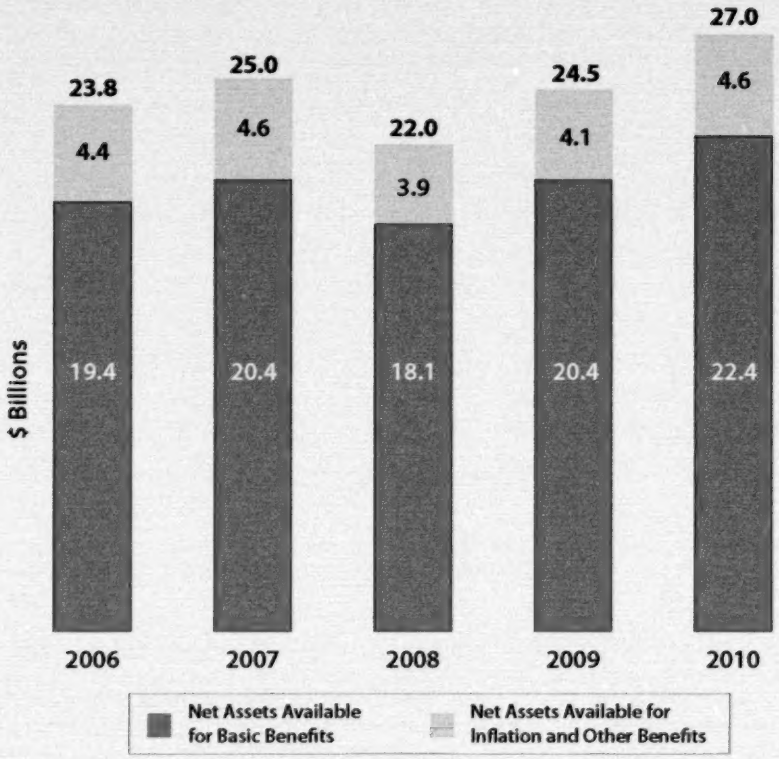
Pension Payments

as at December 31



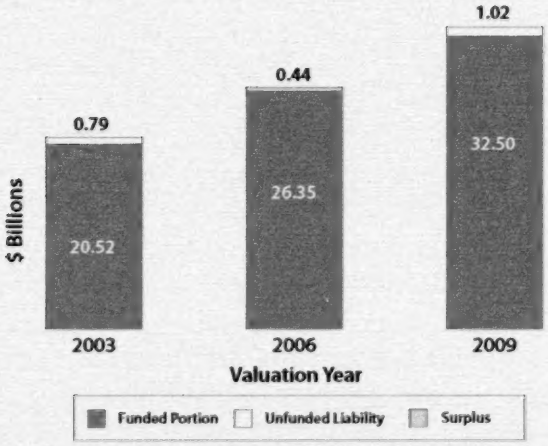
Net Assets Available for Benefits

as at December 31



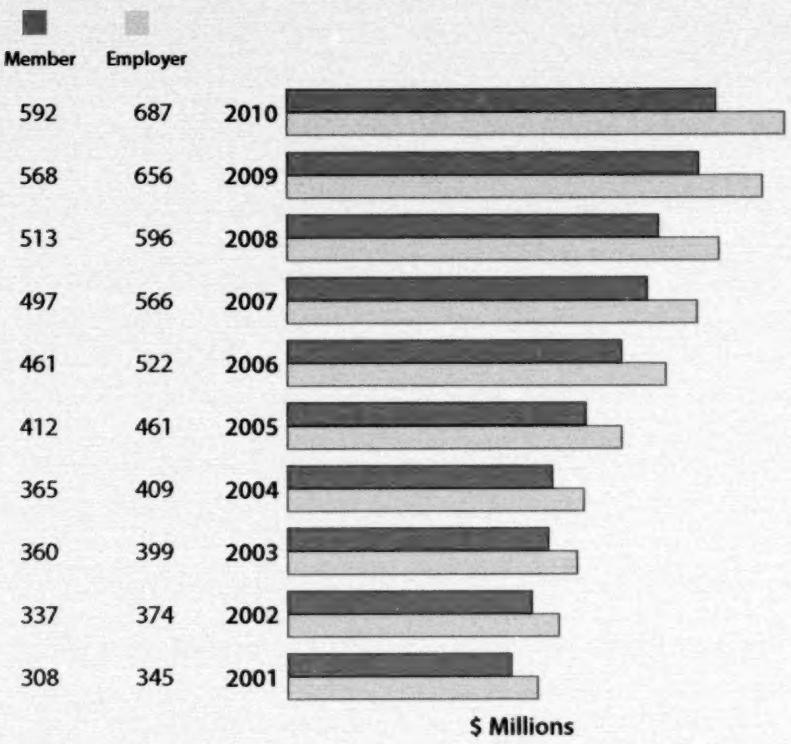
Funding of the Total Basic Benefit Liability

as at December 31



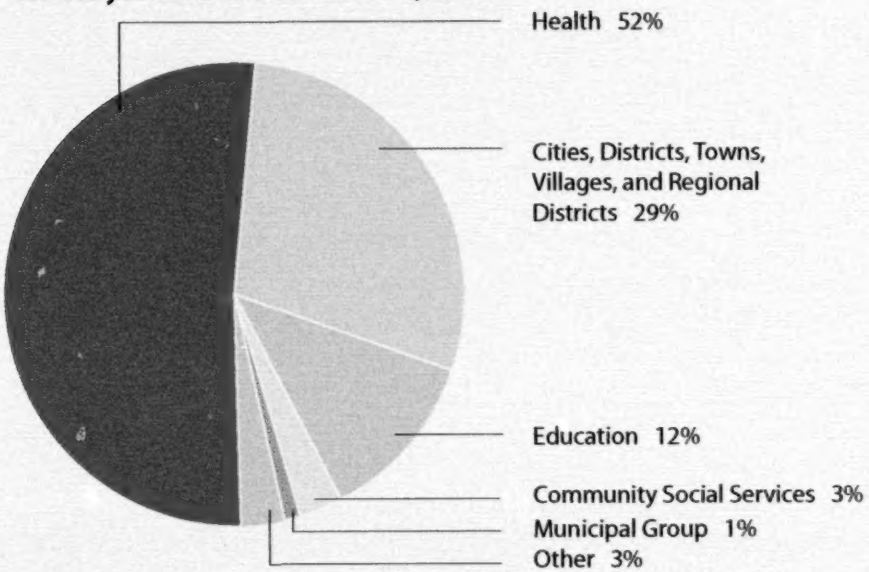
Contributions

year ended December 31

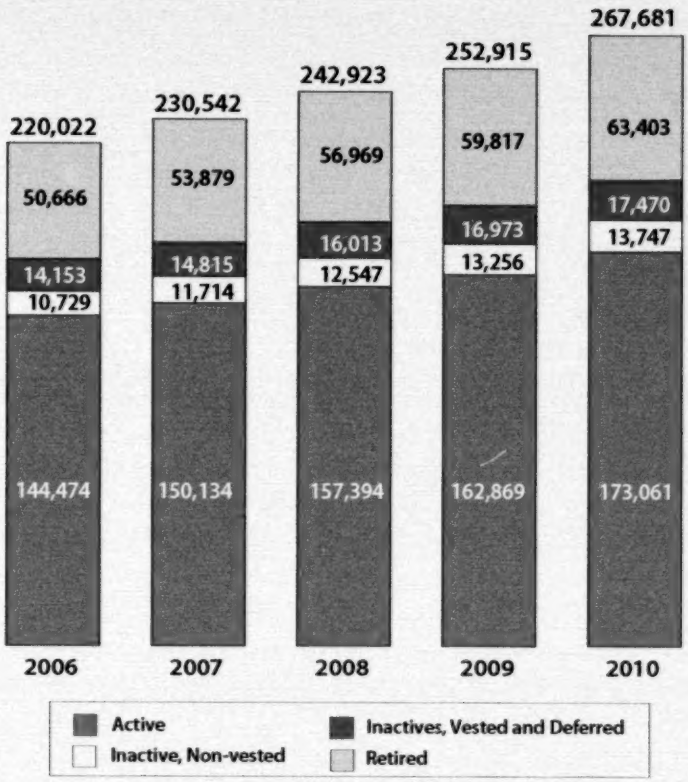


Total Regular Contributions by Employer Sector

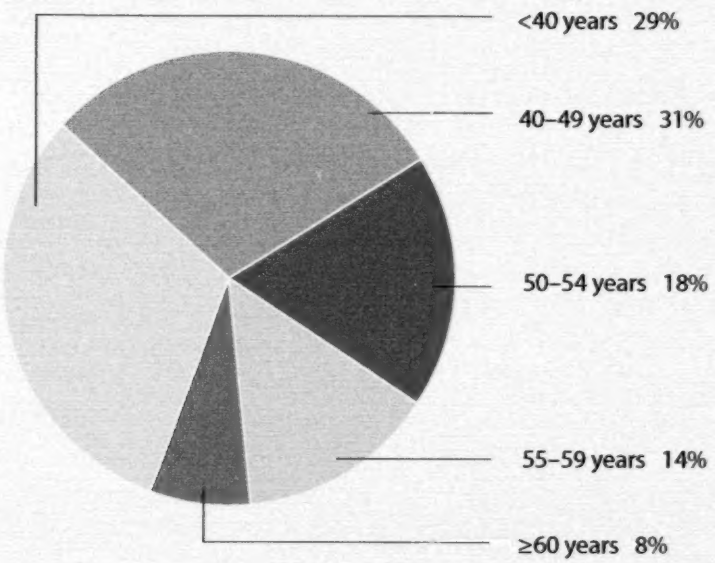
for the year ended December 31, 2010



Number of Members
year ended December 31

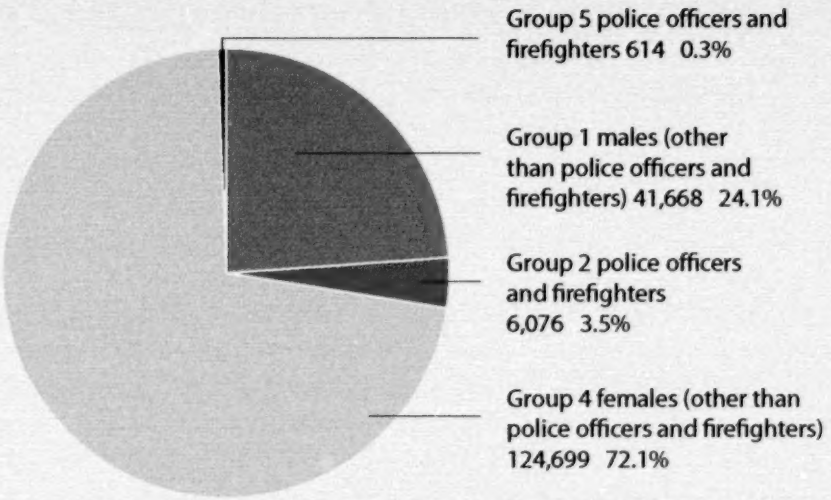


Age Profile of Active Members
as at December 31, 2010



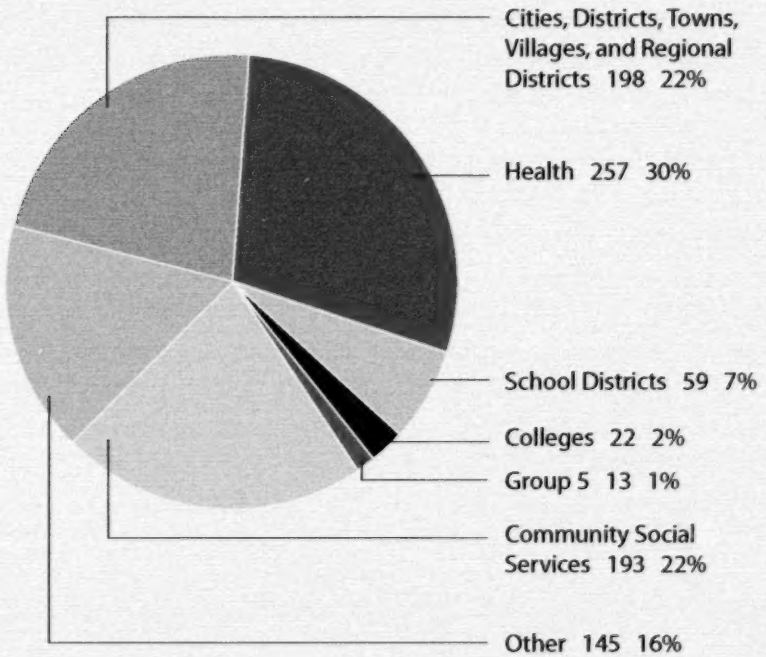
Active Members by Group

as at December 31, 2010

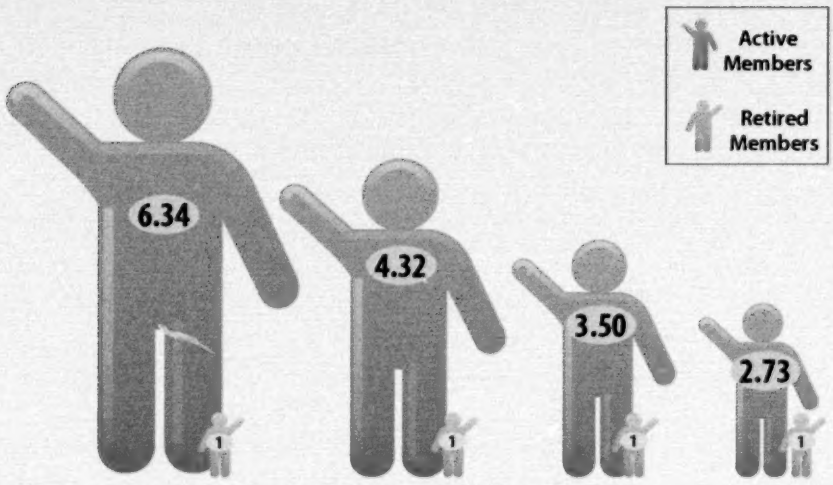

Group 5 police officers and firefighters 614 0.3%
Group 1 males (other than police officers and firefighters) 41,668 24.1%
Group 2 police officers and firefighters 6,076 3.5%
Group 4 females (other than police officers and firefighters) 124,699 72.1%

Note: There are also five Group 3 females in a special closed group.

Municipal Pension Plan Employers


Cities, Districts, Towns, Villages, and Regional Districts 198 22%
Health 257 30%
School Districts 59 7%
Colleges 22 2%
Group 5 13 1%
Community Social Services 193 22%
Other 145 16%

Ratio of Active Members to Retired Members



Members	1980	1990	2000	2010
Active	57,442	79,386	120,048	173,061
Retired	9,066	18,394	34,269	63,403

Financial Statements

PENSION CORPORATION
TEN YEARS – MANY HAPPY RETIREMENTS

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MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Municipal Pension Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Municipal Pension Plan Annual Report is consistent with these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of PricewaterhouseCoopers LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditor's Report attached to these financial statements.

Cheryl Eason, CGA, RPA
Vice President, Financial and Plan Board Services
British Columbia Pension Corporation

Bruce Nicol, CA
Director, Pension Plan and Corporate Financial Services
British Columbia Pension Corporation

May 13, 2011

Financial Statements

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May 13, 2011

Independent Auditor's Report

To the Members of the
Municipal Pension Plan

We have audited the accompanying financial statements of the Municipal Pension Plan, which comprise the statement of net assets available for benefits as at December 31, 2010 and the statement of changes in net assets available for benefits for the year then ended, and related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Municipal Pension Plan as at December 31, 2010 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Financial Statements

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at December 31	2010	2009
ASSETS		
Investments at fair value (Note 3)	$ 27,317,166	$ 24,444,637
Receivables		
Members' contributions	23,689	23,139
Employers' contributions	25,819	24,473
Other	1,146	
Accrued investment income	35	2,856
Due from sale of investments	4,001	24,470
	54,690	74,938
Prepaid expenses	7,463	7,100
Cash	732	8,771
Total Assets	27,380,051	24,535,446
LIABILITIES		
Payable for purchase of investments	336,416	24,470
Accounts payable and accrued expenses	26,633	21,227
Total Liabilities	363,049	45,697
NET ASSETS AVAILABLE FOR BENEFITS	$ 27,017,002	$ 24,489,749

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)
- Financial Instruments (Note 12)
- Capital Disclosures (Note 13)

Brendan Dick
Chair,
Municipal Pension Board of Trustees

Lyn Kocher
Trustee,
Municipal Pension Board of Trustees

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2010	Totals 2009
INCREASE IN ASSETS						
Investment income (Note 4)	$ 2,011,205	$ 29,540	$ 384,405	$ -	$ 2,425,150	$ 2,395,704
Contributions (Note 5)						
Members'	499,869	9,293	80,005	2,564	591,731	568,122
Employers'	575,829	11,358	41,689	58,482	687,358	656,180
	1,075,698	20,651	121,694	61,046	1,279,089	1,224,302
Transfers from other plans	10,564		3,333	-	13,897	20,204
Total Increase in Assets	3,097,467	50,191	509,432	61,046	3,718,136	3,640,210
DECREASE IN ASSETS						
Pension benefits	815,654	-	-	2,747	818,401	756,574
Indexing supplements	146,218	-	-	206	146,424	152,774
	961,872	-	-	2,953	964,825	909,348
Termination and refund benefits	46,908	21,247	24,118	148	92,421	90,887
Transfers to other plans	12,623	-	4,103	-	16,726	17,515
Retired member group benefits (Note 10)	-	-	-	56,686	56,686	53,720
Investment and Administration costs (Note 9)	53,532	-	5,434	1,259	60,225	51,777
Total Decrease in Assets	1,074,935	21,247	33,655	61,046	1,190,883	1,123,247
INCREASE IN NET ASSETS BEFORE TRANSFERS	2,022,532	28,944	475,777	-	2,527,253	2,516,963
Account transfers (Note 6)	13,633	(11,559)	(2,074)	-		
INCREASE IN NET ASSETS	2,036,165	17,385	473,703	-	2,527,253	2,516,963
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	20,363,772	306,834	3,819,143		24,489,749	21,972,786
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 22,399,937	$ 324,219	$ 4,292,846	$ -	$ 27,017,002	$ 24,489,749

Supplemental Benefits Account (Note 10)

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The Municipal Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government of British Columbia and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make Plan rules (pension plan rules). The following brief description of the Plan is provided for general information only. For more information please refer to the Agreement and the pension plan rules.

a) General

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and Responsibilities

Partners
The Partners and appointing authorities representing the Plan members and Plan employers are responsible for nominating and appointing the sixteen trustees and sixteen alternate trustees representing Plan members and Plan employers. The Partners have limited responsibility for directing amendments to the pension plan rules, if certain conditions are met, and for resolving trustee disputes.

Board of Trustees
The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 7a). Unless required to ensure compliance with regulatory enactments applicable to the Plan, pension plan rule changes that result in contribution rate changes, or cause or increase an unfunded liability, can only be initiated by the Partners. The Chair and Vice Chair are appointed by the other trustees.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Contributions

Basic Account
Members contributed to the Basic Account 5.99% (6.80% effective July 1, 2011) of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($47,200 in 2010) and 7.49% (8.30% effective July 1, 2011) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7a and 10).

Employers contributed to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7a and 10).

Inflation Adjustment Account and Supplemental Benefits Account
Members contributed 1% of salaries to the Inflation Adjustment Account (IAA). Employers contributed 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7b and 10).

Retirement Annuity Account
Some employers have special agreements with members by which additional contributions are made to increase members' pension benefits. These contributions are credited to the Retirement Annuity Account. Depending on benefit eligibility the accumulated monies at retirement are used to fund the purchase of a pension (Note 6) or are paid out as a lump sum benefit.

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service totaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five-year highest average annual salary (HAS).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

d) Pension Benefits (continued)

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS for each year of pensionable service.

Future cost-of-living adjustments are not guaranteed. These adjustments are granted at the discretion of the Board and may not exceed the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to the availability of funds in the IAA (Notes 6 and 7b). Any cost-of-living adjustment the Board grants is applied in January. The Board annually considers relevant factors to determine if an adjustment will be granted.

There was no cost-of-living adjustment for retired members at January 1, 2010 as the annual change in CPI as at September 30, 2009 was -0.9% (2009: 3.4%). At January 1, 2011, retired members will receive a CPI increase of 1.0%.

e) Termination and Portability Benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age, may choose:

- a deferred pension; or,
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with a Plan employer, or if under age 60 with less than two years of contributory service (age 55 for certain groups), may also choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the Income Tax Act (Canada), except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the Plan as a separate financial reporting entity independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets available to pay benefits to members of the Plan. It does not purport to show whether these assets are adequate to meet the obligations of the Plan. The actuarial valuation of the basic account for funding purposes is included in Note 7.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earning multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income received and paid from derivative contracts is recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

The investment pools are denominated in Canadian dollars with all foreign denominated balances and transactions within pools translated into Canadian dollars at the relevant foreign exchange rate.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets during the period. Significant areas requiring the use of management estimates relate to the valuation of investments (primarily real estate and private placements) and the estimate of the actuarial position of the Basic Account. Actual results could differ from these estimates.

e) Recent Accounting Pronouncements

In February 2010, the Canadian Accounting Standards Board (AcSB) approved Section 4600, Pension Plans, as Part IV of the CICA Handbook with an issuance date of April 2010. The standard, which replaces Section 4100, is effective for annual financial statements for fiscal years beginning on or after January 1, 2011.

The more significant amendments to the new section include the inclusion in a Statement of Financial Position, the pension obligation amount and the inclusion of a new financial statement, the Statement of Changes in Pension Obligations. Currently reporting of pension obligations is done only through financial statement notes 7 and 8, for funding and accounting purposes, respectively.

3. INVESTMENTS (FAIR VALUE)

	2010			2009
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 590,879	$ 111,661	$ 702,540	$ 369,737
Canadian Bonds (Note 11)	5,721,414	1,081,202	6,802,616	6,259,179
Canadian Equities	4,100,225	774,839	4,875,064	4,034,641
U.S. Equities	2,616,116	494,379	3,110,495	2,940,391
International Equities	3,894,692	735,998	4,630,690	4,290,241
Mortgages	1,017,754	192,330	1,210,084	1,267,421
Real Estate	3,202,867	605,261	3,808,128	3,388,994
Private Placements	1,831,451	346,098	2,177,549	1,894,033
	$ 22,975,398	$ 4,341,768	$ 27,317,166	$ 24,444,637

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

3. INVESTMENTS (FAIR VALUE) (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments. The Plan directly holds Canadian real return bonds of $11.4 million (2009: $1.3 billion) and a private placement investment of $194.5 million (Note 11) (2009: $196.9 million). During 2010, the majority of the real return bonds directly held by the Plan were transferred to a pooled fund, a portion of which is held by the Plan. On January 1, 2010, the Basic and IAA portfolios were merged for investment management purposes at bcIMC.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and investment grade corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, consist mainly of investments in the stock markets of Europe and Asia, as well as key emerging markets.

Short-term investments are valued using current market yields. Canadian bonds are valued based on current market yields and in some cases quoted market prices. Canadian, U.S. and International equities are valued based on quoted market prices.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every 10 to 18 months by accredited independent appraisers to establish current market values. Private placements are valued annually based on financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

Derivative contracts consist of foreign exchange contracts and are held indirectly through various pooled investment portfolios to manage exposure foreign currency risk. Derivative contracts are financial contracts, the value of which is derived from the value of underlying exchange rates.

A separate investment asset portfolio is not held for Retirement Annuity Account assets. For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2010: $324.2 million; 2009: $306.8 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

4. INVESTMENT INCOME

	2010			2009
	Income Allocation	Current Period Change in Fair Value	Total	Total
		($ Thousands)		
Basic Account				
Short-term	$ 5,143	$ 1	$ 5,144	$ 1,903
Canadian Bonds	186,078	252,266	438,344	386,180
Canadian Equities	85,284	520,362	605,646	999,567
U.S. Equities	48,714	198,005	246,719	252,269
International Equities	106,968	136,271	243,239	540,061
Mortgages	50,724	25,690	76,414	75,895
Real Estate	80,913	144,869	225,782	(311,834)
Private Placements	53,182	146,275	199,457	87,710
	617,006	1,423,739	2,040,745	2,031,751
Less Retirement Annuity Account Income Allocation			(29,540)	(32,209)
			2,011,205	1,999,542
Inflation Adjustment Account				
Short-term	942	(10)	932	443
Canadian Bonds	34,774	48,179	82,953	70,427
Canadian Equities	15,961	97,245	113,206	182,717
U.S. Equities	9,121	35,478	44,599	48,213
International Equities	19,992	25,025	45,017	93,209
Mortgages	9,477	4,977	14,454	14,420
Real Estate	15,125	30,211	45,336	(60,501)
Private Placements	9,995	27,913	37,908	15,025
	115,387	269,018	384,405	363,953
Total Investment Income	$ 732,393	$ 1,692,757	$ 2,425,150	$ 2,395,704

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unit holder, and as calculated by bcIMC, and income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income based on the annual rate of return of the Basic Account. Certain external investment management costs are netted against investment income (Notes 9 and 12).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

5. CONTRIBUTIONS

	2010					2009
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account (Note 10)	Total	Total
			($ Thousands)			
Members' contributions						
Regular	$ 497,025	$ -	$ 79,537	$ 2,564	$ 579,126	$ 555,493
Special agreements	-	9,293	-	-	9,293	10,060
Arrears	882	-	144	-	1,026	983
Purchase of service	696	-	117	-	813	540
Leave of absence	946	-	156	-	1,102	864
Reinstatement	320	-	51	-	371	182
	499,869	9,293	80,005	2,564	591,731	568,122
Employers' contributions						
Regular	572,056	-	41,095	1,796	614,947	586,802
Special agreements	-	11,358	-	-	11,358	12,295
Arrears	1,464	-	204	-	1,668	1,490
Purchase of service	989	-	194	-	1,183	683
Leave of absence	1,228	-	165	-	1,393	968
ERIP contributions	92	-	31	-	123	222
Retired member group benefits	-	-	-	56,686	56,686	53,720
	575,829	11,358	41,689	58,482	687,358	656,180
Total Contributions	$ 1,075,698	$ 20,651	$ 121,694	$ 61,046	$1,279,089	$ 1,224,302

Member and employer contributions are as defined under the pension plan rules.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

6. ACCOUNT TRANSFERS

	2010			2009		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
	($ Thousands)					
Present value of current indexing supplements	$ 57	$ -	$ (57)	$ 258,737	$ -	$ (258,737)
Indexing of deferred pensions	5,503	-	(5,503)	6,053	-	(6,053)
Pensions purchased from Retirement Annuity Account	8,073	(11,559)	3,486	11,017	(15,739)	4,722
	$ 13,633	$ (11,559)	$ (2,074)	$ 275,807	$ (15,739)	$ (260,068)

The IAA is a separate account that is maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, if members' pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment.

When a deferred pension is paid, the present value of cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $59 million of the current IAA balance is for cost-of-living adjustments already granted for deferred pensions, but not yet transferred to the Basic Account

There have been no excess interest transfers to the IAA for the years ended December 31, 2002 through 2010. Excess interest is based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $9.4 billion of assets for 2010 (2009: $8.6 billion). The excess interest rate of return is determined by taking the difference between the actual five-year annualized market rate of return (5.10%) and the rate of return used by the actuary (6.50%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2010 was -1.40% (2009: -1.25%) resulting in a negative excess interest amount of $132.0 million (2009: $107.8 million negative excess interest). The cumulative negative excess interest amount of $556.0 million will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

6. ACCOUNT TRANSFERS (continued)

Excess Interest	2010	2009
	($ Millions)	
Cumulative negative excess interest, beginning of year	$ (403.4)	$ (280.2)
Interest applied to beginning of year amount	(20.6)	(15.4)
Negative excess interest	(132.0)	(107.8)
Cumulative negative excess interest, end of year	$ (556.0)	$ (403.4)

A separate Retirement Annuity Account is maintained to record additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to purchase a pension at retirement, monies are transferred from the Retirement Annuity Account to the Basic and the IAA to fund the pension.

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any cost-of-living adjustment that has been granted to retired members is paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members at the discretion of the Board, subject to the limits in the pension plan rules. As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as yet unknown future cost-of-living adjustments.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

The latest full actuarial valuation for funding purposes was prepared as at December 31, 2009 by Eckler Ltd. The results were as follows:

As at December 31	2009	2006
	($ Millions)	
Net assets available for basic pension benefits	$ 20,364	$ 19,401
Five year market value smoothing adjustment	1,051	(1,940)
Smoothed assets for basic pension benefits	21,415	17,461
Value of future contributions at current rate	11,087	8,887
Net actuarial assets for basic pension benefits	32,502	26,348
Liability for basic pension benefits	33,526	25,910
Acturarial surplus/(unfunded actuarial liability)	$ (1,024)	$ 438

The following long-term actuarial assumptions were used:

- annual investment return 6.50% (2006: 6.75%)
- annual salary escalation rate 3.75% (2006: 4.00%)

The main changes between the 2006 and 2009 valuation are as follows:

	($ Millions)
Actuarial surplus as at December 31, 2006	$ 438
Interest on actuarial surplus	95
Contributions above normal cost	383
Investment income lower than actuarial rate of return	(580)
Salary increases different than assumed	(186)
Changes in valuation assumptions	(1,087)
Other actual experience different than expected	(87)
Unfunded actuarial liability as at December 31, 2009	$ (1,024)

The next full actuarial valuation will be as at December 31, 2012, for inclusion in the December 31, 2013 financial statements.

Based on the results of the 2009 actuarial valuation, the actuary determined that an increase in contribution rates was necessary for the Plan to maintain its proper funding. Effective July 1, 2011, member and employer basic contribution rates would each increased by 0.81% of salaries, as recommended by the actuary (Note 1c).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

The Agreement specifies a transitional period during which surplus assets or actuarial gains must be used to achieve the following objectives, in order of priority:

Eliminating any unfunded liability
Rebalancing member and employer contribution rates and providing specified benefit improvements when sufficient surplus assets allow simultaneous implementation
50% of any additional surplus assets must be transferred to a Contribution Rate Stabilization Reserve, and 50% must be transferred to the IAA, to an aggregate total of one billion dollars. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

After these transitional objectives have been achieved, the Agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, full funding for that granted cost-of-living adjustment, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential cost-of-living adjustment.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and when the Plan may not be able to grant full cost-of-living adjustments.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes in Note 7a.

The latest full actuarial valuation for accounting purposes was prepared as at December 31, 2009, by Eckler Ltd. This valuation disclosed an actuarial liability of $22,385 million against the smoothed value of assets of $21,415 million, leaving an unfunded actuarial liability of $970 million (2006: $217 million actuarial surplus).

The next full actuarial valuation will be at December 31, 2012 for inclusion in the December 31, 2013 financial statements.

The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to December 31, 2010, using the following long-term actuarial assumptions:

- annual investment return — 6.50% (2006: 6.75%)
- annual salary escalation rate — 3.75% (2006: 4.00%)

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

On that basis, the extrapolated value of the surplus at December 31 is as follows:

	2010	2009
Extrapolated Actuarial Liability for Accrued Basic Pension Benefits	*($ Millions)*	
Extrapolated actuarial liability, beginning of year	$ 21,519	$ 19,898
December 31, 2009 valuation adjustment	866	-
Extrapolated actuarial liability, beginning of year (adjusted)	22,385	19,898
Account transfers	14	276
Current period benefit costs	1,058	995
Benefits	(1,068)	(1,011)
Interest accrued on liabilities	1,455	1,361
Extrapolated actuarial liability for accrued basic pension benefits, end of year	23,844	21,519
Extrapolated Actuarial Assets Available for Basic Pension Benefits		
Fair value of Basic Account net assets available for benefits	22,400	20,364
Fair value changes not reflected in extrapolated assets	463	1,631
Extrapolated actuarial assets, end of year	22,863	21,995
Extrapolated Actuarial (Liability) Surplus, end of year	$ (981)	$ 476

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

9. INVESTMENT AND ADMINISTRATION COSTS

	2010	2009
	($ Thousands)	
Investment management	$ 34,621	$ 27,947
Benefit administration	23,496	22,120
Board remuneration and expenses	601	449
Board secretariat costs	505	482
Other professional services	1,002	779
	$ 60,225	$ 51,777

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

9. INVESTMENT AND ADMINISTRATION COSTS (continued)

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by investment pooled funds. Investment management costs of $12.0 million (2009: $10.3 million) representing the external management costs incurred by wholly owned corporations of the investment pooled funds are not included in the above amount. External management costs incurred by wholly-owned corporations are netted against their reported investment income.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. Included in accounts payable is $3.1 million (2009: $3.7 million) due to the Pension Corporation for these costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with Board support.

Other professional services include actuarial, insurance, audit and legal fees incurred directly by the Plan.

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain supplemental benefits, for example, pension benefits which exceed the Income Tax Act (Canada) limits for registered pension plans are paid through this account. Certain group benefit coverage has been provided for retired members through the account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and should not exceed 0.8% of pensionable salaries. Currently the 0.8% maximum represents approximately 80% of contributions that would otherwise be employer inflation contributions. To the extent medical service plan premiums are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer basic contributions. Retired member group benefits costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

11. COMMITMENTS

The Plan participates in private placement and international real estate pools managed by bcIMC. As at December 31, 2010, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $931.3 million (2009: $1,058.5 million).

bcIMC established a collateral account for the Plan that is pledged as security for a future investment opportunity. As at December 31, 2010, $11.4 million (2009: $10.9 million) of Basic Account Canadian Bonds are being held as collateral for a line of credit.

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values due to their short term nature.

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, bcIMC. The SIPP requires diversification of investments within asset classes, sets guidelines on investment categories and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by bcIMC and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board.

a) Fair Value

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy as specified in CICA Handbook section 3862 - Disclosures. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

MUNICIPAL PENSION PLAN
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12. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

The following table details the classification of the Plan's financial instruments within the fair value hierarchy as at December 31, 2010:

	2010				2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				($ Millions)				
Short-term	$ (4)	$ 707	$ -	$ 703	$ -	$ 370	$ -	$ 370
Canadian Bonds	(1)	6,804	-	6,803	(10)	6,272	-	6,262
Canadian Equities	4,826	49	-	4,875	3,995	40	-	4,035
U.S. Equities	3,092	18	-	3,110	2,916	24	-	2,940
International Equities	4,619	12	-	4,631	4,283	7	-	4,290
Mortgages	2	1,158	26	1,186	6	1,226	35	1,267
Real Estate	4	15	3,480	3,499	18	41	3,330	3,389
Private Placement	2	32	2,144	2,178	2	46	1,846	1,894
	$ 12,540	$ 8,795	$ 5,650	$ 26,985	$ 11,210	$ 8,026	$ 5,211	$ 24,447

Included in the above table are investments, accrued investment income and amounts due from the sale of and payable for the purchase of investments.

There were no significant transfers of investments between Level 1 and Level 2.

The following table reconciles the Plan's Level 3 fair value measurements from December 31, 2009, to December 31, 2010:

	($ Millions)
Balance at December 31, 2009	$ 5,211
Net investment income	410
Purchases	452
Settlements	(423)
Balance at December 31, 2010	$ 5,650

For Level 3 financial instruments unrealized gains on investments held as at December 31, 2010, of $300 million and gains realized and investment income earned during the year of $110 million are included in investment income in Note 4.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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12. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every 10 to 18 months by accredited independent appraisers to establish current market values. Private placements are valued annually based on financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada. Investment assumptions used in determining the fair value of real estate investments and private placements are appropriate for the nature of the investment and the market in which the investment is located.

Level 3 investments are primarily comprised of investments in real estate and private placements. The potential impact of possible alternative assumptions on the fair value of each investment is not determinable, due to the nature of the external real estate investment manager valuations or independent appraisals for each real estate investment and the use of other valuation techniques for private placements. The fair values are determined using the most appropriate appraisal method for each real estate investment and the most appropriate valuation technique for private placements.

b) Market Risk

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk is comprised of foreign currency risk, interest rate risk, and price risk. Market risk is managed through asset class diversification, diversification within each asset class and credit quality constraints on investments.

i) Foreign Currency Risk

Foreign currency exposure arises from foreign currency denominated investments held indirectly through pooled investment portfolios. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. bcIMC has currency exposure management programs under which it hedges foreign currency exposure through the use of foreign currency forward contracts. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate. The Plan's total direct and indirect currency exposure, the impact of hedging and trading activities and its net exposure as at December 31 are as follows:

MUNICIPAL PENSION PLAN
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12. FINANCIAL INSTRUMENTS (continued)

b) Market Risk (continued)

i) Foreign Currency Risk (continued)

	2010 Fair Value By Currency				2009 Fair Value By Currency			
(Millions Cdn dollar equivalent)	Total Exposure	Hedging	Net Exposure	% of Total	Total Exposure	Hedging	Net Exposure	% of Total
United States	4,588	536	4,052	53%	3,957	669	3,288	46%
Other Pacific	1,463	20	1,443	19%	1,086	8	1,078	15%
United Kingdom	685	25	660	9%	728	16	712	10%
Japan	410	2	408	6%	420	97	323	4%
Other Europe	403	1	402	5%	397	2	395	5%
Emerging markets	339	-	339	4%	194	-	194	3%
Euro Countries	866	552	314	4%	1,353	134	1,219	17%
	$ 8,754	$ 1,136	$ 7,618	100%	$ 8,135	$ 926	$ 7,209	100%

In addition to the investments in foreign currencies, the Plan held $18.2 billion (2009: $16.3 billion) of investments denominated in Canadian dollars. The net foreign currency exposure represents 28% (2009: 29%) of the Plan's total investments.

Included in these totals, as at December 31, 2010, is net accounts payable for outstanding sales and purchases of investments and accrued investment income (2009: accrued investment income).

As at December 31, 2010, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets would have decreased or increased by approximately $761.8 million (2009: $720.9 million).

ii) Interest Rate Risk

Interest rate risk is the risk that the Plan's investments will change in fair value due to future fluctuations in market interest rates. The risk arises primarily on interest-bearing financial instruments held in short-term investments, fixed income investment pools (bonds and mortgages) and Canadian real return bonds held directly by the Plan. Actuarial liabilities are also affected by changes in long-term market interest rates. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and general diversification by security type and geographic region.

The terms to contractual maturity of interest-bearing financial instruments (including accrued interest receivable), as at December 31, are as follows:

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

12. FINANCIAL INSTRUMENTS (continued)

b) Market Risk (continued)

iii) Interest Rate Risk (continued)

	Terms to maturity				2010		2009	
Interest-bearing financial instruments ($ Millions)	Within 1 Year	1 to 5 Years	>5 to 10 Years	Over 10 Years	Total	Effective Yield to Maturity	Total	Effective Yield to Maturity
Short-term	$ 478	$ 225	$ -	$ -	$ 703	1.26%	$ 370	0.49%
Bonds	71	2,436	1,393	1,450	5,350	1.98%	4,953	3.31%
Real return bonds*	72	-	-	1,380	1,452	0.95%	1,309	1.52%
Mortgages	317	635	245	13	1,210	3.44%	1,267	4.73%
	$ 938	$ 3,296	$ 1,638	$ 2,843	$ 8,715		$ 7,899	

* Effective yield to maturity percentages are only the real return, inflation has not been considered

As at December 31, 2010, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, interest-bearing financial instruments (excluding variable interest mortgages) would have decreased or increased by approximately $587.4 million (2009: $545.7 million).

iv) Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to price risk through its equity investments and private placement investments. bcIMC moderates this risk by diversifying its investments across asset classes based on criteria established in the SIPP. As at December 31, 2010, if equity prices (excluding private placement investments and the non-equity balances in the Canadian, US and International equity funds) increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately $1,247.0 million (2009: $1,113.4 million).

c) Credit Risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties and maximum concentration limits with given counterparties.

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NOTES TO THE FINANCIAL STATEMENTS
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12. FINANCIAL INSTRUMENTS (continued)

c) Credit Risk (continued)

Credit risk ratings on financial instruments (short-term, bonds and mortgages)

	2010		2009	
Credit Rating*	($ Millions)		($ Millions)	
AAA/AA	$ 5,813	67%	$ 4,697	60%
A	1,301	15%	1,604	20%
BBB	367	4%	292	4%
	7,481	86%	6,593	84%
Unrated	1,234	14%	1,306	16%
	$ 8,715	100%	$ 7,899	100%

* Standard & Poor's

The ratings used are defined by the Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lenders capacity to meet its financial commitment on the obligation is very strong. Bonds assigned an A or BBB rating are weaker with the BBB rating denoting an obligation with adequate protection parameters.

Credit exposure also exists for members' and employers; contributions and other non-investment assets directly held by the Plan totaling $51.4 million (2009: $56.4 million).

d) Liquidity Risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost effective manner. Expenditures relate primarily to pensions, termination and refund benefits and investment and administration fees. The Plan forecasts its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments and employer and employee contributions. bcIMC primarily invests in securities that are traded in active markets and can be readily sold. Accounts payable of $26.6 million (2009: $21.2 million) and payable for purchase of investments of $336.4 million (2009: $24.5 million) are generally due within one month.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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13. CAPITAL DISCLOSURES

The Plan's capital is comprised of its net assets available for benefits. The Plan's objective for managing capital, including member and employer contributions, is to ensure that the assets of the Plan are invested prudently and effectively to meet the future obligations of the Plan. The Statement of Net Assets Available for Benefits shows the assets available to pay benefits to members of the Plan. The actuarial valuation of the Basic Account for funding purposes is included in Note 7a.

The Plan is established through the B.C. Public Sector Pension Plans Act (Act) and the Agreement made effective April 5, 2001. The Agreement describes the composition, appointment, power, functions and duties of the Board, and provides the authority for the Board to make pension plan rules. The Board is responsible for the governance of the Plan, including investment of the assets and administration of the Plan. The Plan is registered under the B.C. Pension Benefits Standards Act (PBSA), and is a registered pension plan as that term is defined in the Income Tax Act. Investment management services for the Plan are provided, as agent, by bcIMC. Investments are based on an asset mix consistent with the Board approved SIPP. The investment performance of the Plan assets is reviewed by the Board on a quarterly basis compared to relevant industry benchmarks. An actuarial valuation, which is used to determine the adequacy of employer and employee funding contribution rates, must be prepared at least once every three years. The Act and the Board's funding policy require that contribution rates comply with the going concern requirements of the PBSA. With the contribution rate increases effective July 1, 2011, the Plan is compliant.

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